

Latest tender creates unease as the race to improve power supply in SA continues

By [Janine Espin](#)

29 Oct 2020

The South African Department of Mineral Resources and Energy's (DMRE's) Independent Power Producers Programme Office (IPPPO) aims to procure 2,000MW of electricity in its latest request for proposal (RFP). This is in an effort to secure new generation capacity under the risk mitigation independent power producer procurement Programme (RMIPPPP) and is in response to SA's ongoing short-term electricity supply gap. However, the industry and country face a conundrum that appears to be derailing the process with unrealistically tight deadlines.



Janine Espin, managing director, EDS

The IPPPO originally held a workshop in January 2020 and stipulated that the RFP would need to be completed within a short construction period. Unfortunately, it took the IPPPO over eight months after this workshop was held to officially issue the RFP. With the pending bid submission date being the 24 November 2020, it has placed companies under extreme pressure to ensure that their bids are compliant and ready to start by mid-2021. Moreover, due to the historic inconsistent behaviour and unnecessary delays by Government many organisations are hesitant to fully invest in this project.

The current impact – the current pressure

The anticipated date for the announcement of preferred bidders is 15 December 2020 and the planned financial close for these projects will take place on 30 April 2021. Projects will then need to be constructed within a 12-month period, with commercial operations up and running by the end of June 2022. Regrettably, this means that typical renewable energy sources such as wind and solar may have limited opportunities within this bidding round as it usually takes longer than 12-months for these types of projects to be built.

The current state of affairs also leaves questions for those participating in the tender such as, will the relevant authorities be able to issue the relevant permits required for construction timeously, for example it can take up to six to 18 months for a water use license permit to be issued, something which is crucial for the construction of these projects.

The RFP therefore doesn't allow for sufficient time for bidders to obtain the required contractual permits and comply to other legal requirements in order to meet the short development timelines. For example, one of the requirements is the need to adhere to the Carbon Tax Act. Here, solar and wind farms may not apply but for those projects that want to provide

liquefied petroleum gas (LPG) or liquefied natural gas (LNG), they will be subject to the Act.

Possible positives, but ultimately a chicken and egg scenario

Currently, the RFP requires 40% of goods and services to be procured locally. In doing so, Government is trying to ensure that the local economy reap the rewards. However, South Africa's shrinking economy and the fact that many organisations have shut down since the national lockdown hasn't been taken into account. Nor has the fact that the country is facing a brain drain as more locals move overseas. Even though these bidders are being forced to use local resources, they are struggling to identify the skilled individuals who will assist to complete the job effectively.

Fortunately, it has been noted that there will be investment into industry infrastructure, and this comes just in time for an already struggling industry. But the industry needs Government commitment, infrastructure investment, support and cash flow to be able to become operational again and produce.

The underlying concern

With the renewable energy sector having to deal with historical delays, coupled with the uncertainty brought upon by continued rumours of a nuclear build, companies are still scurrying to meet the submission deadline. At the same time, they are extremely conservative with their bid preparation requirements.

Both the renewable energy industry and government need to take a step back to realise the immense disconnect between resources, compliance requirements and where South Africa's economy lies. Further complicating the issue includes the bidders' struggle to obtain the necessary skills. Government should therefore look towards a more effective communication strategy that ensures the industry is aware of their plans timeously whilst removing any doubt and uncertainty around these kinds of projects.

Furthermore, the DMRE must understand that the renewable energy industry as a whole will plummet should government elect to proceed with a Nuclear build and more so, if they do not stick to their timelines and thereby cause unnecessary delays with the implementation of both this risk mitigation RFP as well as the planned Round 5 of the independent power producers programme.

ABOUT THE AUTHOR

Janine Espin is the managing director at Economic Development Solutions (EDS).